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TAGS: [ECON](#) [EINV](#) [EBRD](#) [PGOV](#) [UZ](#)  
SUBJECT: GOU PAYS OFF NEWMONT LOAN TO EBRD

Classified By: CLASSIFIED BY CDA BRAD HANSON FOR REASONS 1.4 (B, D).

¶1. (C) Summary: The Head of the Representative Office of the European Bank for Reconstruction and Development (EBRD), Fernand Pillonel, said the remainder of its loan to the Zarafshan-Newmont Joint Venture will be paid in full by the GOU by the end of June. As EBRD is a third tier creditor, this move is more political than business. Meanwhile, the defunct joint venture's creditors are increasingly frustrated by the continuing failed auctions and have demanded fiscal and operational information from the State Committee on Geology, the current operator of the business. End summary.

¶2. (C) Pillonel told Charge and poloff that the State Committee on Geology agreed to pay EBRD the last \$2.6 million of an outstanding \$60 million loan. As EBRD is a third tier creditor and debts to the first and second creditors remain outstanding, this move was not a business decision. Instead, opined Pillonel, the Uzbeks want to remove EBRD from the issue, as the bank refuses to ignore Newmont's expropriation and holds the GOU up to international standards.

¶3. (C) The Zarafshan-Newmont creditors have increasingly pressured the GOU to follow international norms, stressing that all bankruptcy proceedings must accord with the law. Pillonel said half of the joint venture's outstanding loans are owed to banks and many of these creditors are interested in pulling out of the former joint venture. At the last creditors' meeting, the group demanded the State Committee on Geology outline current operation procedures and sources of new financing. They also issued a written inquiry into Zarafshan's assets and production statistics. Since Newmont's departure last summer, the defunct joint venture has produced 100 million dollars of gold, according to Pillonel, and opened up a second storage warehouse. GOU officials told him they are very confident that they can run the operation better than Newmont. They have already procured Chinese chemicals at a price much lower than Newmont received from a different supplier.

¶4. (C) Comment: The GOU's readiness to pay off EBRD's loan signals a move closer to state control of the operation. The State Committee on Geology has been officially in control of the defunct joint venture, pending a new buyer, since the GOU declared Newmont bankrupt in August of 2006. If truly intent on selling the joint venture, the GOU would have lowered the asking price by 10 percent after each of the failed auctions, according to Uzbek state auction rules. Thus, the current asking price would be \$85 million, down from \$130 million. Because the price has not been lowered and Zeromax, controlled by Presidential first-daughter Gulnora Karimova, has yet to snatch it up, something else is afoot. Rumors persist that Zeromax is interested, but counter forces in the

government are trying to prevent such a buyout. What we know for sure is that the GOU will try to maximize its profits, and business dealings related to Zarafshan-Newmont will not be transparent.

HANSON